FACT SHEET

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THE INTERNATIONAL GRAINS ARRANGEMENT

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The International Grains Arrangement, the successor of International Wheat Agreement, shapes the economic climate for U.S. wheat sales abroad. Texas wheat producers depend on export markets for their produce, as shown by the 9.5 million tons of wheat and flour exported through major Texas ports in 1965-66. Of the total $551 million agricultural exports from Texas in 1967-68, approximately $43 million was Texas wheat.

PURPOSE

Agreements and commitments by U.S. government in the International Grains Arrangement directly affect the total farm price of Texas wheat. For example, the price difference between Hard Red Winter No. 2 wheat FOB Gulf for export and the agreed world market price is used in computing values of export certificates paid to wheat program participants.

A knowledge of these agreements and commitments by Texas wheat and flour handlers and exporters can maintain and possibly improve Texas' competitive position for wheat exports. For example, orderly and continuous flow of wheat to satisfy commercial requirements of importing countries is economically healthy and beneficial to the Texas wheat producer, as it is to the storage, warehouse, transportation and processor industries servicing wheat.

BACKGROUND

Special trading agreements have affected international trade in wheat since 1949. The first International Wheat Agreement became effective August 1, 1949. The last IWA was effective for a 3-year period, beginning August 1, 1962 and extended to 1965, 1966 and 1967 for 1 year periods.

In April 1963, negotiations for further reduction in import tariffs (The Kennedy Round) began in Geneva under the General Agreement on Tariffs and Trade (GATT). Trade in agricultural products became an important part of the negotiations. In the case of cereals, the intention was to formulate a wider agreement covering world trade in all grains.

Terms of the settlement on cereals included in the final GATT agreement related only to world trade in wheat, including prices, and to a program on food aid in grains. In a Memorandum of Agreement setting out the terms each signatory government agreed to: (1) negotiate a grains arrangement containing provisions set forth in the Memorandum on as wide a basis as possible, (2) work diligently for the early conclusion of the negotiations and (3) seek acceptance of the arrangement in accordance with the government's constitutional procedures as rapidly as possible.

Negotiations on an international arrangement for grains resulted in the International Grains Arrangement in August 1967. This Arrangement essentially incorporates provision of the Kennedy Round Cereals negotiations with the administrative and institutional structure of IWA. The Arrangement consists of two parts: A *Wheat Trade Convention* and a *Food Aid Convention.*

Wheat Trade Convention

Basic provisions of the Wheat Trade Convention as of July 1, 1968, effective for a 3-year period, are:

- Stabilization of prices within a prescribed price range with minimum and maximum prices for 14 different wheats.
- Importing countries commitment to import not less than a stated percentage of their commercial purchases from members of the Convention.

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• "Collective supply obligation" is subject to an annual adjusted quantitative limit (datum quantity) when world prices are at or above the maximum price.

• Exporters, in association with one another, have undertaken to make available quantities of wheat sufficient to satisfy, on a regular and continuous basis, commercial requirements of the importing countries.

• Established a Prices Review Committee with power to quickly agree upon and implement adjustments or additions in the adjustable and multiple-price concept. The chief burden of upholding the world price floor falls upon members acting collectively in this committee rather than upon the individual exporter.

Prices incorporated in the Wheat Trade Convention as reported in August 1, 1968, Wheat Situation, ERS, USDA, include:

	Price Range Basis for Gulf (U.S. $ per bushel)
Argentina—Plate wheat	1.73 - 2.13
Australia—Fair average quality	1.68 - 2.08
U.S.A.—Dark Northern Spring No. 1, 14 percent	1.83 - 2.23
Hard Red Winter No. 2 (ordinary protein)	1.73 - 2.13
Western White No. 1	1.68 - 2.08
Soft Red Winter No. 1	1.60 - 2.00
Canada—Manitoba No. 1	1.95½- 2.35½
Manitoba No. 3	1.90 - 2.30
European Economic Community—Standard quality	1.50 - 1.90
Sweden	1.50 - 1.90
Greece	1.50 - 1.90
Spain—Fine wheat	1.60 - 2.00
Common wheat	1.50 - 1.90
Mexico—Wheat on sample or description, Mexican Pacific coast or Mexican border, for all destinations	1.55 - 1.95

Additional basic provisions include:

• Strengthened provisions enabling countries to request consultations with member countries concerned where they believed their interests have been adversely affected by distortions in wheat/flour price relationships.

• Commercial purchases made by importers from any member country now counts towards the fulfillment of their obligations, and importers undertake to purchase in each crop year from member countries.

• Obligations to trade at prices consistent with the price range also covers transactions with non-member countries.

• Concessional transactions apply to grains as a whole, including rye, barley, oats, corn and sorghum, and not just wheat. A first guideline is an undertaking by member countries to conduct any concessional transaction in grains in a way to avoid harmful interference with normal patterns of production and international commercial trade.

• Member countries undertaking concessional transactions will be additional to the commercial import trade of the recipient country — within compliance consistent with the Principles of Surplus Disposal and Guiding Lines recommended by FAO of the United Nations.

• Other provisions are unchanged as agreed upon in the International Grains Arrangement, 1967.

Signatory countries, as of July 1, 1968, include European Economic Community and 33 countries to participate in the *Wheat Trade Convention.* Seventeen have been ratified according to each country's constitutional or institutional procedures:

Australia	Japan	Sweden
Canada	Korea	Switzerland
Denmark	Mexico	Tunisia
Finland	Norway	United Kingdom
Ireland	Saudi Arabia	United States
Israel	South Africa	

Provisional application for membership include:

Argentina	Ecuador	Luxembourg
Belgium	EEC	Netherlands
Bolivia	France	Pakistan
Costa Rica	Italy	Portugal
West Germany		

Countries filing instruments of accession to the Convention include:

Barbados	Nigeria
Libya	United Arab Republic

As of July 1, 1968, 17 countries and EEC had ratified or filed provisional application for membership in the *Food Aid Convention.*

These include:

Argentina	Denmark	Italy	United Kingdom
Australia	Finland	Japan	United States
Belgium	France	Switzerland	West Germany
Canada			

Food Aid Convention

Participating countries are committed to contribute wheat, coarse grains or cash equivalent as aid to developing countries to an amount of 4.5 million metric tons of grain annually (metric ton

= 2,204 lbs.). Grains are to be suitable for human consumption and of acceptable type and quality.

A Food Aid Committee is to receive reports from contributing countries and to keep under review amounts and terms of contributions whether in the form of cash, grain or other assistance.

The minimum contribution of each contributing country (signed the GATT Memorandum) is fixed as follows:

	Percent	1,000 Metric Tons
United States	42.0	1,890
Canada	11.0	495
Australia	5.0	225
Argentina	.5	23
European Economic Community	23.0	1,035
United Kingdom	5.0	225
Switzerland	.7	32
Sweden	1.2	54
Denmark	.6	27
Norway	.3	14
Finland	.3	14
Japan	5.0	225

The contributing country is permitted to specify a recipient country.

International Grains Arrangement Implementation — U. S.

USDA has implemented the price provisions of Wheat Trade Convention of IGA. Certificate costs (inverse subsidies) and payment rates (export subsidies) announced by Wheat Subsidy and Market Branch, ASCS, are changed daily to reflect daily market fluctuations of various grades and classes of wheat. Certificate costs announced for Hard Winter Wheat at Gulf ports have ranged from 13 to 24 cents per bushel and from 22 to 31 cents for Soft Red Winter Wheat.

Cost of an export certificate is the amount needed to bring the price of wheat going into export up to the world minimum level. The cost, although paid by the exporter, is ultimately borne by the importer.

U.S. wheat farmers benefit from these certificate costs. The 1965 Food and Agricultural Act stipulates that if at the end of a crop year the certificate costs paid by exporters are more than the export payments made to them, the excess will be prorated among producers participating in the Wheat Program.

Table 1. Wheat Export Prices Basis Prompt or 30-Day Shipment for Selected Dates
Gulf Port Market — f.o.b. Vessel
(No. 1 Hard Winter — Ordinary Protein)

Date		Price	Cost of Export Certificate
		— dollars per bushels —	
January	16, 1969	1.58	.14
	23, 1969	1.57	.14
	30, 1969	1.57	.15
February	6, 1969	1.56	.15
	13, 1969	1.56	.16
	20, 1969	1.54	.17
	27, 1969	1.53	.17
March	6, 1969	1.53	.14
	13, 1969	1.55	.14
	21, 1969	1.53	.16
	28, 1969	1.52	.17

An example of cost of export certificate is shown for a recent 75-day period in Table 1. As price per bushel declined, the cost of export certificate increased by almost an offsetting amount. Such export certificate costs are accumulated and the net payments are pro-rated among U.S. Wheat Program participants.

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